

**UNITED STATES DEPARTMENT OF AGRICULTURE**

Farm Service Agency

P.O. Box 2415

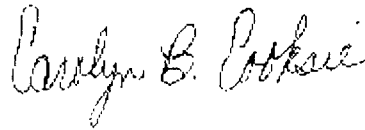
Washington, DC 20013-2415

Notice FC-103

**For:** State Offices

**Internal Controls for Farm Loan Programs (FLP)**

**Approved by:** Deputy Administrator, Farm Loan Programs



**1 Overview**

**A**

**Background**

The FLP internal review process provides management with current information needed to efficiently and effectively administer FLP.

FLP maintains an efficient management control system to comply with the requirements of the Federal Managers Financial Integrity Act and to effectively evaluate program delivery. Also, as a Government lender, FLP receives a high degree of oversight from OIG, GAO, and OMB.

**B**

**Purpose**

This notice provides guidelines for:

- ensuring that there is consistency among State Offices concerning the scope of the FLP internal review process
- State Offices to carry out their part of the review according to the National Internal Review Guide.

**C**

**Contacts**

If there are questions about this notice, contact Bobby O. Reynolds, Director, PDEED, through the Area Office.

**Disposal Date**

November 1, 1997

**Distribution**

State Offices

2-27-97

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## Notice FC-103

### 2 Action

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#### A SED Action

SED's are responsible for ensuring that the following FLP internal review process is implemented in their State:

- farm loan dockets review, conducted under the oversight of DAFLP, to assess program delivery according to laws and regulations
- State and County Office management segments included in the National Internal Review Guide
- County Office reviews, conducted under the direction of DAPDFO, to assess the performance of individual County Offices.

**Note:** COR's will complete these reviews using the FLP verification items and working papers.

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#### B Agriculture Credit Director Action

Agriculture Credit Directors (ACD's) shall use the:

- National Internal Review Guide for FY 1997 to complete the review process for the remainder of FY 1997

**Note:** DAFCP issued a memorandum, dated February 11, 1997, "Fiscal Year (FY) 1997 Farm Credit Program (FCP) National Internal Review (NIR) Guide." The memorandum attached a copy of this guide.

- CARsummary software to support the process. The software will be transmitted by KCMO.

**Note:** CAR means Coordinated Assessment Review.

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## 2 Action (Continued)

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### C State Office Action

State Offices shall:

- review a minimum of 30 case files, selected at random from the population, for each of the following categories:
  - direct loan making
  - guaranteed loan making
  - direct loan servicing
  - guaranteed loan servicing

**Note:** If the population is less than 30 case files, all files are to be reviewed.

- review all case files from the following categories:
  - direct loan debt settlements
  - guaranteed loan loss claims
  - farm inventory properties
- after completing the review:
  - enter the compliance data for all review categories in the CARsummary software
  - enter financial data for direct and guaranteed loanmaking categories in the CARsummary software
  - retain, for three FY's, hard copies of review documentation, which includes questionnaires and summary sheets by borrower, for trend analysis and respond to oversight by OIG and GAO.

**Note:** The review can be completed as part of an ongoing process at the State level, or during group sessions with DD's, Agriculture Credit Managers, and others.

State Offices are encouraged to use the National Internal Review Guide for training purposes.

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## Notice FC-103

### 2 Action (Continued)

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#### D

##### DAFLP Action

DAFLP shall be responsible for:

- maintaining updated I-COR. Exhibits 51 through 64
- developing appropriate guidelines to incorporate the permanent procedures in the National Internal Review Guide
- conducting quality assurance reviews for each State on a 3-year cycle

**Note:** To maximize the benefits of the reviews, ACD's shall participate in the National Office quality assurance reviews.

- establishing a tracking system to monitor the implementation and effectiveness of corrective action plans

**Note:** A progress report from the tracking system will be submitted to the Administrator and all Deputy Administrators periodically to maintain quality program delivery.

- at the beginning of each FY, scheduling States for the 3-year cycle quality assurance review. For FY 1997, the following schedule has been established.

Area Office	States	Week of Review
Southeast	AR, GA, NC, and SC	April 14, 1997
Southwest	CO, HI, NM, and OK	May 12, 1997
Northwest	AK, ID, and WY	June 9, 1997
Midwest	IN and MO	July 14, 1997
Northeast	MA, ME, and VT/NH	August 11, 1997

**Note:** ACD's will be requested to bring hard copies of current review documentation to their scheduled quality assurance review.

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### 3 Reports

#### A State Office

State Offices shall:

- complete the minimum review requirements
- compile responses to questionnaires and Farm and Home Plan financial data
- identify weaknesses and/or deficiencies in the farm loan operations

**Note:** Weaknesses are those questions showing 10 percent or greater noncompliance.

- develop specific corrective actions for the elimination of deficiencies identified
- implement the approved corrective actions
- submit a midyear progress report as of March 31, 1997, to reach DAFLP before April 15, 1997

**Note:** The midyear progress report will be a brief memorandum indicating the following:

- the present status of the NIR by categories
- problems outside the scope of the review process that need attention.

**Notes:** Include the number of files reviewed by category and identify any **apparent** weaknesses or potential problems foreseen.

A matrix may be helpful in presenting the data, but is not required.

- submit an annual report as of August 31, 1997, to reach DAFLP before September 30, 1997, with a complete analysis and summary of findings. Use the reporting format in Exhibit 1.

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## Notice FC-103

### 3 Reports (Continued)

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**B**

**DAFLP Action**      DAFLP shall:

- compile the information from all States
  - analyze and prepare a summary report for senior management.
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### 4 Obsolete Material

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**A**

**Obsolete Notice**      Notice FC-42 is obsolete.

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## Annual FLP Internal Review Report

**A****Formatting  
Report in Three  
Parts**

For consistency in reporting and to provide the reader with a better scope of activities going on within each State, the following 3-part format is requested.

Three-Part Format	Material to Include
Part 1	<p>State profile data.</p> <p><b>Examples:</b> Following are examples of this data:</p> <ul style="list-style-type: none"> <li>• the number of loans</li> <li>• percentage of delinquency</li> <li>• applications on hand</li> <li>• servicing actions completed</li> <li>• acquired properties on hand.</li> </ul> <p><b>Note:</b> This data should also include personnel information on number of offices and guaranteed lenders within the State.</p>
Part 2	<p>An analysis and summary of findings while completing the State Office management and County Office management segment of NIR.</p>
Part 3	<p>An analysis and summary of findings for each category of the NIR Guide.</p> <p>Proposed corrective action to eliminate weakness. The corrective action plan shall be specific and indicate the:</p> <ul style="list-style-type: none"> <li>• responsible official</li> <li>• target date for completion</li> <li>• actual completion date.</li> </ul> <p><b>Note:</b> The corrective action plan may be closed when the records show that all corrective actions have been implemented.</p>

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**Annual FLP Internal Review Report (Continued)**

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**B  
Submitting  
Report**

State Offices shall submit a hard copy of the summary report and a diskette containing all data collected during the review, including financial data for direct and guaranteed loanmaking categories. The due date is in subparagraph 3 A.

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**C  
Using Matrix**

A matrix using the following headings foreach category is encouraged.

**Category:**

**Weakness:**

**Corrective Action:**

**Official Responsible:**

**Target Date for Completion:**

**Actual Completion Date:**

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